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ATTACHMENT B

REQUIRED MITIGATION MEASURES

ATTACHMENT B

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I. DIVESTITURE OF SOCALGAS' OPTIONS TO PURCHASE KERN RIVER AND MOJAVE

On or before September 1, 1998, SoCalGas shall sell its options to purchase the California facilities of Kern River and Mojave pipelines to nonaffiliates of the merged company.

II. SDG&E FOSSIL POWER PLANT DIVESTITURE

On or before December 31, 1999, SDG&E shall sell its gas-fired generation facilities to nonaffiliates of the merged company.

III. APPLICANTS' 25 REMEDIAL MEASURES

A. The Terms and Conditions of the tariff provisions relating to transportation shall be applied in the same manner to the same or similarly situated persons if there is discretion in the application of those tariff provisions. (Remedial Measure 1.)

B. SoCalGas shall strictly enforce a tariff provision for which there is no discretion in the application of the provision. (Remedial Measure 2.)

C. SoCalGas shall not, through a tariff provision or otherwise, give its marketing affiliates (including SDG&E) preference over non-affiliated shippers in matters relating to transportation including, but not limited to, scheduling, balancing, transportation, storage or curtailment priority. (Remedial Measure 3.)

D. SoCalGas shall process all similar requests for transportation in the same manner and within the same period of time. (Remedial Measure 4.)

E. SoCalGas shall not disclose to its marketing affiliates or to employees of SDG&E engaged in the gas or electric merchant function any information SoCalGas receives from a non-affiliated shipper or potential non-affiliated shipper. (Remedial Measure 5.)

F. To the extent SoCalGas provides information related to transportation of natural gas to its marketing affiliates or to employees of SDG&E engaged in the gas or electric

ATTACHMENT B

merchant function, SoCalGas shall provide that information contemporaneously to all potential shippers, affiliated and nonaffiliated, on its system. (Remedial Measure 6.)

G. To the maximum extent practicable, SoCalGas' operating employees and the employees of its marketing affiliates, including employees of SDG&E engaged in the electric merchant function, shall function independently of each other. (Remedial Measure 7.)

H. If SoCalGas offers a transportation discount to a marketing affiliate, including the SDG&E gas or electric merchant function, or offers a transportation discount for a transaction on its intrastate pipeline system in which a marketing affiliate, or the SDG&E gas or electric merchant function, is involved, SoCalGas shall make a comparable discount contemporaneously available to all similarly-situated non-affiliated shippers; and within 24 hours of the time at which gas first flows under a transportation transaction in which a marketing affiliate receives a discounted rate or a transportation transaction at a discounted rate in which a marketing affiliate is involved, SoCalGas shall post a notice on its Electronic Bulletin Board, operated in a manner consistent with 18 C.F.R. § 284.10(a), providing the name of the marketing affiliate involved in the discounted transportation transaction, the rate charged, the maximum rate, the time period for which the discount applies, the quantity of gas scheduled to be moved, the receipts points into the SoCalGas system under the transaction, any conditions or requirements applicable to the discount, and the procedures by which a non-affiliated shipper can request a comparable offer. The posting shall remain on the Electronic Bulletin Board for 30 days from the date of the posting. The posting shall conform with the requirements of 18 C.F.R. § 284.10(a). (Remedial Measure 8.)

I. SoCalGas shall file with the CPUC procedures that will enable shippers and the CPUC to determine how SoCalGas is complying with the standards of 18 C.F.R. § 161. (Remedial Measure 9.)

J. SoCalGas shall maintain its books of account and records (as prescribed under Part 201) separately from those of its affiliate. (Remedial Measure 10.)

K. SoCalGas shall maintain a written log of waivers that it grants with respect to tariff provisions that provide for such discretionary waivers and provide the log to any person requesting it within 24 hours of the request. (Remedial Measure 11.)

ATTACHMENT B

L. The merged company's Gas Operations¹ shall operate independently and shall be physically separate from Gas Acquisition.² (Remedial Measure 12.)

M. Communications pertaining to gas transportation between Gas Operations and any shipper on the SoCalGas system, including Gas Acquisition, shall, except as specifically exempted below, occur on a nondiscriminatory basis, preferably through SoCalGas' interactive GasSelect EBB. The merged company shall not permit any employee or third party to be used as a conduit to avoid enforcement of any of these rules. (Remedial Measure 13.)

N. The SoCalGas GasSelect EBB shall be the primary means of communication between Gas Operations and any shipper on the SoCalGas system, including Gas Acquisition. Telephonic and facsimile communications between Gas Operations and any shipper on the SoCalGas system, including Gas Acquisition, shall be limited to the status and administration of that shipper's transportation and storage capacity, volumes, and, if relevant, expected gas usage. Telephonic communications shall be tape recorded. In addition, SoCalGas shall permit a representative of the CPUC and/or the California Power Exchange to audit or monitor the application of the procedures and protocols being used to operate the system and respond to the service requests of all system users. (Remedial Measure 14.)

O. The merged company shall preclude Gas Operations or Gas Acquisition from learning the financial positions in futures markets of any affiliate. If non-public information of this nature is received by personnel working at Gas Operations or Gas Acquisition, it shall be contemporaneously posted on the GasSelect EBB. (Remedial Measure 15.)

P. Unrestricted communications shall be permitted between Gas Operations and SoCalGas Gas Acquisition to the extent necessary for Gas Acquisition to provide system reliability and balancing services. Such communications shall be posted on the GasSelect EBB no later than seven (7) days after the communication to avoid an artificial increase in the cost of such services that may result from posting this information contemporaneously. (Remedial Measure 16.)

¹ "Gas Operations" includes the SoCalGas Gas Operations Center at the Spence Street facility and its employees, the SoCalGas Gas Transactions group, and the SDG&E Gas Operations group.

² "Gas Acquisition" means the gas acquisition function at SoCalGas and SDG&E and all energy marketing affiliates unless otherwise stated.

ATTACHMENT B

Q. SoCalGas shall propose to the Commission in the upcoming Gas Industry Restructuring proceeding a set of provisions designed to eliminate the need for SoCalGas Gas Acquisition to provide system balancing. If the system reliability and balancing function is separated from SoCalGas Gas Acquisition, all communications between Gas Operations and SoCalGas Gas Acquisition shall be through, and posted contemporaneously on, the GasSelect EBB, except for the telephonic and facsimile communications addressed above in (3). (Remedial Measure 17.)

R. Any affiliate of SoCalGas (including SDG&E) or of SDG&E shipping gas on the system of SoCalGas, SDG&E, or both for use in electric generation shall use the GasSelect EBB to nominate and schedule such volumes separately from any other volumes that it ships on either system. Such gas will be transported under rates and terms (including rate design) no more favorable than the rates and terms available to similarly-situated non-affiliated shippers for the transportation of gas used in electric generation. (Remedial Measure 18.)

S. SoCalGas shall seek prior Commission approval of any transportation rate discount or rate design offered to any affiliated shipper on the SoCalGas system using existing procedures established by the Commission for review of discounted transportation contracts. (Remedial Measure 19.)

T. SoCalGas shall continue to maintain an EBB that is an interactive same-day reservation and information system. In any case where SoCalGas is required to post information on the Gas Select EBB, it shall post such information within one hour of an executed transaction or the receipt/transmission of any relevant information. (Remedial Measure 20.)

U. SoCalGas shall post daily on the GasSelect EBB the following information for that day: estimated gas receipts by receipt point; necessary minimum flows at each receipt point; estimated system sendout; estimated storage injections and withdrawals; and estimated day-end system underground storage inventory. SoCalGas shall post within one hour the following information: gas receipts by receipt point, and net storage injections and withdrawals. SoCalGas shall also post daily on the GasSelect EBB information depicted in graphic form to show the relationship between storage inventory levels and underdeliveries to the SoCalGas system. (Remedial Measure 21.)

V. SoCalGas shall post daily the following “next-day” information: capacity available at each receipt point; total confirmed nominations by receipt point; estimated system storage injections and withdrawals; estimated as-available storage capacity; and the status of system balancing rules (daily or monthly). (Remedial Measure 22.)

ATTACHMENT B

W. SoCalGas shall post system status data such as maintenance information, facilities out-of-service, expected duration of outage, etc., as soon as such information is known to SoCalGas. (Remedial Measure 23.)

X. SoCalGas shall provide any customer requesting a transportation rate discount an analysis of whether the discount would optimize transportation revenues. (Remedial Measure 24.)

Y. SoCalGas shall provide a transportation rate discount to any shipper on the SoCalGas system if such a discount will optimize transportation revenues, regardless of any impact on affiliate revenues. (Remedial Measure 25.)

IV. AFFILIATE TRANSACTION CONDITIONS

A. MINERAL ENERGY COMPANY CONDITIONS

1. The officers and employees of Mineral Energy Company (hereinafter "Parent") and its subsidiaries shall be available to appear and testify in Commission proceedings as necessary or required. The Commission shall have access to all books and records of SoCalGas, SDG&E (hereinafter referred collectively as "Utilities"), Parent, and any affiliate pursuant to PU Code Section 314. Objections concerning requests for production pursuant to PU Code Section 314 made by Commission staff or agents are to be resolved pursuant to ALJ Resolution 164 or any superseding Commission rules applicable to discovery disputes. Utilities are placed on notice that the Commission will interpret Section 314 broadly as it applies to transactions between Utilities and Parent or its affiliates and subsidiaries in fulfilling its regulatory responsibilities as carried out by the Commission, its staff and its authorized agents. Requests for production pursuant to Section 314 made by Commission staff or agents are deemed preemptively valid, material and relevant. Any objections to such request shall be timely raised by Utilities, Parent or their affiliates. In making such an objection, respondents shall demonstrate that the request is not reasonably related to any issue that may be properly brought before the Commission and, further, is not reasonably calculated to result in the discovery of admissible evidence in any proceeding.

2. The "Mineral Energy Company Corporate Policies and Guidelines for Affiliate Transactions" ("Corporate Policies and Guidelines") shall be implemented in its entirety by Utilities, Parent, and their affiliates.

ATTACHMENT B

3. Between January 1999 and January 2002, the Executive Director of the Commission shall make staff assignments as necessary to conduct an audit of Parent, Utilities and controlled affiliates, at the expense of shareholders of Parent for an audit of Utilities' affiliate transactions for the purpose of verifying Utilities' compliance with the Corporate Policies and Guidelines and other applicable Commission orders and regulations (Verification Audit). The Office of Ratepayer Advocates (ORA, which, for purposes of this condition shall mean ORA or such other staff organization that the Executive Director designates for the purpose) shall be the designated staff organization having responsibility for the audit unless the Executive Director determines that the needs of the Commission dictate otherwise. Parent shall provide funding for the costs of the audit, including the fees and expenses of an outside auditor or consultant and ORA's incremental travel costs, subject to the following: (a) ORA may contract with the outside auditor or consultant, or Parent may contract directly with the outside auditor or consultant, in which case ORA shall be a third-party beneficiary of the contracted services, for which ORA shall have the ultimate authority and responsibility for selection, direction, monitoring and supervision of the contractor; and (b) prior to the selection of an outside auditor or consultant, ORA shall consult with Utilities, UCAN, TURN, and FEA regarding the identity of potential contractors. The Utilities, Parent, and all controlled affiliates shall retain, at least until the completion of the Verification Audit, (i) all internal and external correspondence between Utilities' officers and department heads and controlled affiliates, and (ii) to the extent prepared in the normal course of business, desk calendars, meeting summaries, phone call summaries or logs and E-mail correspondence between Utilities' officers and department heads and controlled affiliates. The auditor's report shall then be filed by ORA with the Commission and served on the parties to this Application, which shall remain open solely for such purpose. The Administrative Law Judge ("ALJ") assigned to this proceeding is directed to hold a pre-hearing conference during the last quarter of the first, second, and third years following the date of the decision in this proceeding, as necessary to assure that the Verification Audit is scheduled. ORA shall file and serve the results of the Verification Audit in the docket for this proceeding and, at the same time, shall file and serve its motion to consolidate the docket for this proceeding with any joint proceeding of Utilities then pending, or, if none, to institute an investigation for such review. The ALJ shall consider ORA's motion, and the responses of other parties, if any, and shall either issue a ruling consolidating this docket into the appropriate existing proceeding or prepare an order for the Commission to institute an investigation for such purpose. After the Verification Audit, customers of Utilities shall continue to fund the normal PU Code Sections 314.5 and 797 audits. However, in no event shall customers of Utilities be required to fund another Verification Audit until at least three years have elapsed since the completion of the first Verification Audit, with the exception of audits performed in connection with PU Code Section 851 proceedings.

ATTACHMENT B

4. The dividend policy of Utilities shall continue to be established by each Utility's respective Board of Directors as though each of the Utilities were a stand-alone utility company.

5. The capital requirements of each of the Utilities, as determined to be necessary to meet its obligations to serve, shall be given first priority by their respective Boards of Directors and the Board of Directors of Parent.

6. Utilities shall each maintain balanced capital structures consistent with that determined to be reasonable for each of them by the Commission in its most recent decisions on their capital structures. Utilities' equity shall be retained such that the Commission's adopted capital structure for each shall be maintained (adjusted in the case of SDG&E to reflect the imputation of its long-term capital leases) on average over the period the capital structure is in effect for ratemaking purposes.

7. When an employee of Utilities is transferred to either Parent or any non-utility affiliate, that entity shall make a one-time payment to the affected utility in an amount equivalent to 25% of the employee's base annual compensation, unless the affected utility can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee involved. The aggregate of all such fees paid to Utilities shall be credited to SDG&E's Electric Revenue Adjustment Mechanism (ERAM) account or SoCalGas' miscellaneous revenue account, as appropriate, on an annual basis, or as otherwise necessary to ensure that the customers of Utilities receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to SDG&E or SoCalGas business units which become non-utility affiliates at the time of the initial separation of the business units from SoCalGas or SDG&E pursuant to PU Code Section 851 application or other commission proceeding. However, it will apply to any subsequent transfers between Utilities and previously separated business units.

8. Utilities shall avoid a diversion of management talent that would adversely affect them.

ATTACHMENT B

9. Neither Parent nor any of Parent's subsidiaries shall provide interconnection facilities or related electrical equipment to SDG&E, directly or indirectly, where third-party power producers are required to purchase or otherwise pay for such facilities or equipment in conjunction with the sale of electrical energy to SDG&E, unless the third party may obtain and provide facilities and equipment of like or superior design and quality through competitive bidding. Parent and its non-utility subsidiaries may participate in any competitive bidding for such facilities and equipment.

10. Valuable customer information, such as customer lists, billing records, or usage patterns transferred, directly or indirectly, from Utilities to any non-utility affiliate shall be made available to the public subject to the terms and conditions under which such data was made available to the non-utility affiliate. This condition will not apply to such information that is proprietary to and in the possession of a business unit of Utilities at the time it is initially separated as a non-utility affiliate.

11. Utilities shall comply fully with OIR 92-08-008 (as modified by D.93-02-019) including, but not limited to, (1) reporting the sale or transfer of any tangible asset between Utilities, any Parent or any affiliate and (2) reporting certain information on all affiliates of Utilities. Such full compliance does not require the reporting of transactions between SDG&E and SoCalGas, which transactions are outside the scope of the Affiliate Transactions Order.

12. For transactions between SDG&E and SoCalGas the following conditions must be followed:

(a) The transfer of goods or services not produced or developed for sale must be priced at fully-loaded cost.

(b) The Utilities must establish security measures to protect the confidentiality of customer information transferred between them to prevent inappropriate access by non-utility affiliates.

ATTACHMENT B

(c) The Utilities must maintain current records created in the normal course of business of (i) all goods and services provided by one utility to the other including the costs incurred to provide the goods and services and the consideration paid, and (ii) all assets transferred between them including the date of transfer, price paid, how the price was calculated, and date of payment.

(d) The utilities must establish security measures to ensure that SDG&E employees engaged in the electricity market function cannot obtain access to confidential gas information of SoCalGas.

13. If SoCalGas offers a transportation discount to an affiliated shipper, SoCalGas must make a comparable discount available to all similarly situated non-affiliated shippers.

14. In addition to compliance with Conditions 1-13, inclusive, all gas and power marketing affiliates of Utilities shall comply with the following:

(a) General Conditions

- Utilities may not endorse or recommend a gas or power marketing affiliate to SoCalGas or SDG&E customers with respect to gas or power marketing.
- Utilities may not inform either gas or electric customers of the existence or business of a gas or power marketing affiliate unless the customer is provided a list of others who offer the same service.
- Any non-tariffed goods and services provided to a gas or power marketing affiliate by Utilities must be provided to others on the same terms and conditions.
- A gas or power marketing affiliate cannot share photocopying, word processing or fax equipment with Utilities.
- A gas or power marketing affiliate may hire employees of Utilities, but any such employees may not remove proprietary utility property or information that could give the gas or power marketing company a marketing advantage.
- Energy marketing affiliates must maintain separate facilities from those of the Utilities and have those facilities available for inspection by the CPUC.
- The Utilities shall not share employees with gas and power marketing affiliates; employees of the gas and power marketing affiliates will function independently from employees of the utilities.

ATTACHMENT B

- The gas and power marketing affiliates must maintain separate books and records from the Utilities.
- The Utilities must prohibit booking to their accounts the costs or revenues of their gas and power marketing affiliates.
- The Utilities shall not seek to pass on to their customers the costs of any brokerage fee or commission paid to a power marketing affiliate.
- No power marketing affiliate will make sales of power to affiliated Utilities or purchase energy or electric transmission capacity from the Utilities without either prior regulatory approval or pursuant to filed tariffs of the Utilities.
- The gas and power marketing affiliates can only use the affiliated Utilities' transmission services according to the utility transmission tariffs.
- Employees of Utilities shall not provide confidential gas or power marketing or operational information to a gas or power marketing affiliate, unless such information is made available contemporaneously to other gas and power marketers. Examples of confidential marketing information include customer gas and power consumption data, name and address. Examples of confidential operational information include real-time storage injection/withdrawal information, gas purchase plans and recent gas purchases. Operational information may be valuable only for a period of time past which the market becomes fully aware of it and, thereafter, is no longer restricted.
- Gas and power marketing affiliate employees shall have no access to the physical facilities of Utilities except as provided to other gas and power marketers. This applies to buildings, offices and other physical utility facilities, but does not apply to computer systems, phone systems or other information systems. Password protection must be used to prevent employees of a gas and power marketing affiliate from obtaining from Utilities' confidential marketing information that otherwise must be made available to all marketing companies.

(b) As it pertains to gas marketing affiliates, such affiliates shall comply with the FERC affiliate standards of conduct for gas pipeline companies (18 CFR §161.1) and the CPUC rules for utility gas marketing affiliates (D.90-09-089, pp. 14-16, modified by D.91-02-022).

(c) A power marketing affiliate of the utilities must comply with FERC Order 889 Standards of Conduct (18 CFR §§37.3 and 37.4).

ATTACHMENT B

B. MINERAL ENERGY COMPANY POLICY AND GUIDELINES FOR AFFILIATE COMPANY TRANSACTIONS

1. INTRODUCTION AND GENERAL POLICY

(a) DEFINITIONS

Affiliate: Mineral Energy Company and all its subsidiaries are Affiliates. Affiliates other than SDG&E, SoCalGas, and their subsidiaries are "non-utility Affiliates." SDG&E, SoCalGas and their regulated subsidiaries and any other public utility company which may be formed or acquired is considered a "utility Affiliate."

Corporate Support Services: Services performed for and benefiting one or more entities within the Affiliated group.

Cost of Sales: The direct cost of goods sold during an accounting period.

Directly Requested Services: Those services explicitly requested and provided exclusively for the benefit of the requesting party.

Fair Market Value: The price at which a willing seller would sell to a willing buyer, neither under a compulsion to buy nor sell. Generally, it will be determined through reference to transactions within a specified market. In the absence of a specified market from which to determine Fair Market Value, Fair Market Value may be determined under a variety of methods discussed in Section III of this policy.

Fully Loaded Cost: The value at which a good or service is recorded in the transferee's accounting records. It includes all applicable direct charges, indirect charges, and overheads. For the purposes of these policies and guidelines Fully Loaded Cost will include an additional 5% premium applied to Labor Charges but only when a good or service is transferred from a utility Affiliate to a non-utility Affiliate.

Intangible Asset: An asset having no physical existence, whose value is limited by the rights and anticipated benefits that possession conveys upon the owner.

ATTACHMENT B

- Intellectual Property:* Includes copyrights, patent rights, trade secrets, customer lists, royalty interests, licenses, franchises, and proprietary, market, or technological data not publicly available.
- Labor Charges:* Consist of direct payroll costs, including all employee benefits such as pension, post employment benefits, health insurance, etc.; but not general office expenses such as space and supplies.
- Mineral Energy Company:* The parent company of Enova Corporation and Pacific Enterprises, who are, respectively, the parent companies of San Diego Gas & Electric Company and Southern California Gas Company. The name “Mineral Energy Company” is a temporary name and will be changed at an appropriate time. In this document “Mineral Energy Company” is also referred to as “Parent Company.”
- Personal Property:* Includes vehicles, airplanes, machinery, furniture, fixtures not appurtenant to land, equipment, materials and supplies, computer hardware and related software applications, and any other tangible property which is not real property.
- Real Property:* Includes land, buildings, improvements and fixtures which are appurtenant to land, and timber. It also includes mineral rights, water rights, easements, and other real property rights.
- SDG&E:* San Diego Gas & Electric Company, a regulated public utility.
- SoCalGas:* Southern California Gas Company, a regulated public utility.
- Subsidiary:* An entity controlled by another, generally through majority ownership.
- Third Parties:* A party that is not an Affiliate, as defined in this policy.

(b) STATEMENT OF POLICY

The following corporate policy has been established to guide relationships between and among Mineral Energy Company (the “Parent Company”), the regulated utility Affiliates (principally, SDG&E and SoCalGas) and the non-utility Affiliates. All such relationships shall be conducted in a fashion that is consistent with this general corporate policy.

ATTACHMENT B

It is the policy of SDG&E, SoCalGas, the Parent Company, and all Affiliates (collectively, the Company) to ensure that the business activities of non-utility Affiliates are not subsidized by utility operations. Towards this end, it is the Company's policy to conduct the non-utility business ventures, where practical, economic or efficient, independently of the Company's utility operations. Specifically,

- All relationships between utility and non-utility Affiliates (including the Parent Company) are to be conducted so as to avoid cross-subsidization of non-utility operations by utility operations.
- Prompt and fair compensation or reimbursement is to be given/received for all assets, goods and services transferred or provided between the Parent Company, the utility Affiliates and the non-utility Affiliates.
- Resource sharing and intercompany transactions are to be conducted to ensure non-utility Affiliates' operations are not subsidized by utility operations. Non-utility Affiliates should utilize their own employees and third party suppliers to the extent practical in lieu of directly requesting the services of employees of utility Affiliates and/or the Parent Company. In accordance with the foregoing, Affiliates shall, where feasible, and to the extent practical, acquire, operate and maintain their own facilities and equipment and retain their own administrative staffs. This policy does not prohibit resource sharing for economies and efficiencies.
- In the event that a utility Affiliate's nonpublic proprietary information is made available to non-utility Affiliates, the utility Affiliate shall be compensated in accordance with the provisions of this policy and guidelines or the information shall be made available to similarly situated third parties.³ However, if the nonpublic proprietary information is valuable customer information, that information shall automatically be made available to the public subject to the terms and conditions it was made available to the non-utility Affiliate.
- There shall be no preferential treatment by a utility Affiliate in favor of a non-utility Affiliate in business activities that the utility Affiliate also conducts with unrelated third parties, and such business activities shall be conducted at arm's length and in accordance with any applicable regulatory requirements. An arm's length basis of conducting business is one where a party seeks to satisfy its separate best interests in dealing with another party.

³ With respect to utility affiliates under FERC jurisdiction, information must be made available to similarly situated third parties regardless of compensation to the extent required by FERC order. In all cases, regulatory rules take precedence over this corporate policy. Should regulatory requirements of the different jurisdictions be in conflict with each other, the officers of the Parent Company will be responsible for solving the conflict.

ATTACHMENT B

(c) OVERALL ACCOUNTABILITY

The Vice President and Controller of Parent Company is responsible for issuing, updating, and monitoring compliance with this policy.

(d) SCOPE

This policy applies to the Parent Company, SDG&E, SoCalGas, and all Affiliates.

(e) PURPOSE

The purpose of these policies and guidelines is to set forth business practices to be observed in the transactions between and among utility Affiliates, non-utility Affiliates, and the Parent Company, after the consummation of the merger between Enova Corporation and Pacific Enterprises. All transactions between and among these parties are to follow the policies and guidelines stated herein.

These policies and guidelines have been developed to ensure that prompt and fair compensation or reimbursement is given/received for all assets, goods and services transferred between the Parent Company, utility and non-utility Affiliates and that information reported to the Parent Company meets the various reporting requirements to which SDG&E, SoCalGas, and the Parent Company are subject. The flow of information and the transfer of assets, goods and services between and among these parties are to be conducted in accordance with the policies and guidelines contained herein.

Such policies and guidelines will be modified as experience dictates in order to ensure that all Affiliate transactions are duly recorded, the policies comply with regulatory requirements and there is prompt and fair reimbursement of costs associated with transactions between Affiliates on an ongoing basis.

(f) IMPLEMENTATION

The Parent Company and each of its Affiliates will be responsible for the implementation of these policies and guidelines within their respective organizations. Procedures will be developed by each Affiliate to ensure that Affiliated employees are cognizant of, and can properly implement, the following policies and guidelines. All Affiliated transactions will be adequately documented. Internal control measures will be reviewed, tested and monitored to ensure that policies and guidelines are observed and that potential or actual deviations are detected and corrected.

ATTACHMENT B

In the event a situation has not been addressed by the policies and guidelines contained herein arises, the situation shall be brought to the attention of the applicable officers of the utility Affiliate involved, or, if no utility Affiliate is involved to the officers of the Parent Company, for review and/or approval.

(g) COMMUNICATIONS

In the event that proprietary information of an utility Affiliate is made available to any other Affiliate for non-utility commercial purposes, including the Parent Company, the utility Affiliate shall be compensated for such information in accordance with the provisions of these policies and guidelines or the information shall also be made available to similarly situated third parties.⁴

However, if the nonpublic proprietary information is valuable customer information, that information shall automatically be made available to the public subject to the terms and conditions it was made available to the non-utility Affiliate.

These policies and guidelines are not intended to restrict or inhibit transfer price communications by the Parent Company or an Affiliate necessary to conduct their business, or information that is generally in the public domain. Specifically, it does not restrict:

- communications concerning intercompany billings, payments, audits, treasury, financial and tax reporting, corporate support activities, employee benefits, risk management, human resources and the like;
- communications about general corporate policies and practices;
- communications of public information or of information also available to similarly situated third parties; or
- incidental communications that do not involve the transfer of proprietary information or other Intellectual Property, as defined in this policy.

2. ORGANIZATIONAL GUIDELINES

(a) PARENT COMPANY

The Parent Company will be organized in a manner which results in effective and efficient management of SDG&E, SoCalGas, and other utility Affiliates. The costs of the

⁴ See footnote 4 above for discussion of FERC requirements related to transfers of information.

ATTACHMENT B

Parent Company are to be allocated among the Affiliates in accordance with this policy. In the near term, the utilization of existing SDG&E, SoCalGas, Enova Corporation, or Pacific Enterprises departments to provide the level of corporate services required by the Parent Company will result in efficiencies.

Corporate functions such as shareholder services, corporate accounting and consolidation, corporate communications and business planning and budgeting will be performed by one or more utility or non-utility Affiliates. The Fully Loaded Cost of these services will be billed to the Parent Company and other Affiliates, as appropriate. The cost of these services will be allocated as follows:

- The first step consists of directly assigning to the Parent Company all costs for services which have been specifically requested by or performed on behalf of the Parent Company. For example, direct labor costs of employees in the SDG&E Law Department who provide legal research requested by the Parent Company, will be charged based on directly assigned labor charges, including employee benefits and other overheads.
- The second step involves allocating costs of functions which benefit the Parent Company and other Affiliates but cannot be directly assigned to individual entities. Corporate functions such as shareholder services and investor relations are examples. These costs will be indirectly assigned based on causal or beneficiary relationships. For example, the cost of shareholder services may be allocated based on equity investment and advances to Affiliates.

Allocation of Parent Company Costs

It is the intention that all Parent Company costs shall be allocated among the Affiliates, including utility Affiliates. Accordingly, all Parent Company costs, regardless of whether incurred directly by the Parent Company or incurred by an Affiliate and charged to the Parent Company, shall be allocated among all the Affiliates in the manner described below.

1. All costs that can be directly or indirectly assigned to Affiliates shall be so directly charged or allocated.
2. Common costs not assignable directly or indirectly shall be allocated based on a formula representing the activity of the Affiliate as it relates to the total activity of the Affiliated group (four factor formula). The formula will be based on the Affiliate's proportionate share of (1) total assets, (2) operating revenues, (3) operating and maintenance expenses (excluding the direct Cost of Sales, purchased gas, cost of electric generation for utility operations and income taxes), and (4)

ATTACHMENT B

number of employees. Each factor shall be equally weighted. The factors included in the formula will be periodically reviewed and modified to the extent required.

The allocation of Parent Company costs shall not change the nature of the costs incurred. Therefore, costs which are not recoverable in rates of the utility Affiliate, such as charitable contributions and governmental relations activities, must be appropriately recorded "below the line" by the utility Affiliates. It shall be the responsibility of the Parent Company (and the utility Affiliates, if acting on behalf of the Parent Company) to properly identify such charges in intercompany billings and maintain appropriate records supporting the amount and nature of the charges.

Organizational expenses related to the formation of the Parent Company will not be recorded in the operations expense accounts of the utility Affiliates included in the determination of their rates, to the extent they are incurred by or allocated to the utility Affiliates.

(b) UTILITY AFFILIATES

SDG&E and SoCalGas will be organized in a manner that allows them to provide the highest quality utility service that focuses on safety and reliability, and is responsive to customers' needs. Each utility Affiliate will, to the extent it makes business sense, share resources with the other utility Affiliate.

The corporate officers and directors of the utility Affiliates will devote sufficient time and effort to utility matters such that utility services are not compromised. To the extent that officers and directors spend time on Affiliate matters, such time will be billed to the Affiliates in accordance with the guidelines in Section III.

(c) NON-UTILITY AFFILIATES

As a general policy, resource sharing, and intercompany transactions will be conducted to ensure non-utility Affiliates' operations are not subsidized by utility operations. The following corporate organizational objectives have been established to prevent any cross-subsidization:

- Non-utility Affiliates shall utilize their own employees and third-party suppliers, to the extent practical.
- Non-utility Affiliates shall acquire, operate and maintain their own facilities and equipment, where practical.

ATTACHMENT B

- Non-Utility Affiliates shall retain their own administrative staffs, to the extent practical.

3. TRANSFER OF ASSETS, GOODS AND SERVICES

(a) GENERAL

The purpose of the corporate transfer-pricing policies and guidelines in this section is to assign a monetary value to all assets, goods or services transferred between the Parent Company, SDG&E, SoCalGas, and the other utility and non-utility Affiliates. The transfer pricing methodology will ensure that transactions between the Affiliates do not adversely affect the Parent Company, SDG&E, SoCalGas, the other utility Affiliates, or their respective customers.

The objective in accounting for transfers within the Affiliated group involves the appropriate: (1) identification, (2) valuation, and (3) recording of transactions between entities. There are three general types of transfers that will occur:

- Transfers of assets or rights to use assets;
- Transfers of goods or services produced, purchased or developed for sale; and
- Transfers of goods or services not produced, purchased or developed for sale.

Transfers of assets or rights to use assets and transfers of goods and services produced, purchased or developed for sale will be priced based on the following:

- Tariff/list price -- between utility Affiliates
- Fair Market Value -- between utility Affiliates and the Parent Company, or between non-utility Affiliates and other utility Affiliates

Transfers of goods or services not produced, purchased or developed for sale will be priced as follows:

- Higher of Fair Market Value or Fully Loaded Cost -- from utility Affiliates to the Parent Company or non-utility Affiliates
- Lower of Fair Market Value or Fully Loaded Cost -- from the Parent Company or a non-utility Affiliate to utility Affiliates
- Fully Loaded Cost -- between utility Affiliates, such as SDG&E and SoCalGas

ATTACHMENT B

These procedures provide the accounting safeguards to prevent cross-subsidization of non-utility goods and services. The transfer price for all goods and services with annual billings less than \$250,000 may be at Fully Loaded Cost or net book value whichever is applicable, at the option of the transferor. Fully Loaded Cost will include a 5% premium applied to Labor Charges when labor is provided by a utility Affiliate to a non-utility Affiliate. Each of the transfers is discussed in more detail below.

As specific goods and services are identified, an arrangement should be formalized in writing covering the specific goods or services to be provided. Accounting and billing of the related costs should be included in the arrangement and developed for each product or service using the guidelines in this section. These arrangements are discussed in more detail below in subsection E.

(b) TRANSFERS OF ASSETS OR RIGHTS TO USE ASSETS

(i) Identification: Transfers of assets include transfers of tangible real or personal property and Intellectual Property used in a trade or business. Transfers of assets also include rights to use assets through leases or other arrangements in excess of one year.

Real property

Includes, but is not limited to:

- Land
- Buildings
- Improvements
- Timber
- Mineral rights
- Easements
- Other real property rights

Personal property

Includes, but is not limited to:

- Automobiles
- Airplanes
- Power-operated equipment
- Computer hardware
- Computer software or application software
- Furniture
- Materials and supplies

ATTACHMENT B

Intellectual Property

Includes, but is not limited to:

- Copyrights
- Patent rights
- Trade secrets
- Customer lists
- Royalty interests
- Licenses
- Franchises

However, it does not include Intellectual Property to which the Affiliate does not have rights. These rights must be in the Affiliate's possession or specifically granted to it.

(ii) **Valuation:** Transfers of assets or rights to use assets will be valued at Fair Market Value, which will be determined through methods appropriate for the asset. Fair Market Value shall be used for all transfers of assets in excess of \$250,000 in net book value and for transfers of goods and services when annual billings are in excess of \$250,000. In order to ease administrative burdens for transfers, if the net book value of a transferred asset is equal to or less than \$250,000, the transfer may be priced at net book value at the transferor's option. Examples of methods that may be used to determine Fair Market Value include:

- Appraisals from qualified, independent appraisers
- Averaging bid and ask prices as published in newspapers or trade journals
- Reference to a specified market

The determination of Fair Market Value must be adequately documented to ensure that a proper audit trail exists.

For transfers of product rights, patents, copyrights and other Intellectual Property, valuation shall be at Fair Market Value which may be a single cost price, a royalty on future revenues or a combination of both. Such royalty payments, if any, shall be developed on a case-by-case basis.

(iii) **Recording:** Transfers of assets or rights to use assets will be recorded through a direct charge based on valuation of the transferred asset as described above.

(c) **TRANSFERS OF GOODS AND SERVICES PRODUCED, PURCHASED OR DEVELOPED FOR SALE**

ATTACHMENT B

(i) **Identification:** Transfers of goods or services produced, purchased or developed for sale include those goods or services intended for sale in the normal course of the Affiliate's business. In order to be considered produced, purchased or developed for sale, the goods and services must be available to third-parties in addition to other Affiliates.

Goods or services produced, purchased or developed for sale could include among others:

- Gas transmission and distribution services
- Electric generation, transmission and distribution services
- Gas Marketing
- Office space rental
- Engineering and development services
- Facility operations and maintenance services
- Other related energy services

Goods or services produced, purchased or developed for sale would usually be the product of resources which are planned and dedicated to providing those goods or services.

(ii) **Valuation:** Transfers of goods and services produced, purchased or developed for sale will be valued at tariff or list price or Fair Market Value, depending upon the nature of the Affiliate.

- Transfers from utility Affiliates for regulated services will be based on rates authorized by a regulatory agency.
- Transfers from non-utility Affiliates will be based on Fair Market Value determined by an appropriate method such as:
 - a. Reference to current prices in comparable transactions for similar goods or services between non-Affiliated parties
 - b. Published prices
 - c. Reference to a specified market

(iii) **Recording:** Transfers of goods or services produced, purchased or developed for sale will be recorded through a direct charge to the recipient based upon the valuation described above.

(d) **TRANSFERS OF GOODS OR SERVICES NOT PRODUCED,
PURCHASED OR DEVELOPED FOR SALE**

ATTACHMENT B

(i) **Identification:** Transfers of goods or services not produced, purchased or developed for sale includes those goods or services that are provided only incidentally to the primary business of the Affiliate. Services that are provided to other Affiliates by an Affiliate within the Affiliate group for economic or other purposes would also be considered a service not produced, purchased or developed for sale. These goods or services will not be provided to independent third parties. Examples include:

- Data processing
- Audit services
- Incidental use of vehicles or office space
- Small tools and equipment

Corporate functions such as shareholder services, finance, legal, corporate accounting and consolidation, internal auditing and corporate planning and budgeting will be performed for the Parent Company initially by employees of Affiliates (see Section A). In addition, the Affiliates may contract with other Affiliates for the services of support personnel in those instances where it is not practical for the Affiliate to have its own administrative staff. Use of utility Affiliate employees or services by non-utility Affiliates will require the appropriate approval. These transactions are covered by the transfer-pricing guidelines contained within this section.

(ii) **Valuation:** Transfers of services not produced, purchased or developed for sale will be priced as follows:

- Higher of Fully Loaded Cost or Fair Market Value for transfers from utility Affiliates to non-utility Affiliates
- Lower of Fully Loaded Cost or Fair Market Value for transfers from non-utility Affiliates to utility Affiliates
- Fully Loaded Cost for transfers between utility Affiliates

Fully Loaded Cost for goods and services transferred from a utility Affiliate to a non-utility Affiliate will include a 5% surcharge on Labor Charges, as defined.

(iii) **Recording:** Transfers and Affiliate allocations will be performed and calculated by the Affiliate providing the service. In order to ease the administrative burdens, if annual billings for a good or service are equal to \$250,000 or less, the transfer price may be the fully allocated cost including the 5% premium on Labor Charges at the option of the transferor. The Affiliate receiving the service will have the right to audit the allocation. Adjustments to allocations will be made in accordance with the policy discussed in Section VI.

ATTACHMENT B

Costs will be assigned to the Affiliates depending on the nature of the transactions using a three-step process: 1) specifically identifiable costs will be charged directly to the entity requesting and benefiting from the services; 2) indirect costs which have a causal or beneficiary relationship will be proportionately allocated by that causal or benefit factor to the Affiliate; and 3) remaining indirect costs will be allocated by a multi-factor formula (four factor) representing the proportionate activity of each Affiliate as compared to the entire Affiliate group. The detail of this three-step process follows:

(1) Step #1: Costs will be directly assigned to the entity requesting and benefiting from the goods or services provided. Examples of direct charges include:

- Directly assigned Labor Charges, including applicable loadings for payroll additives of employees in utility Affiliate departments which provide requested services. This could include personnel in departments such as:
 - ⇒ Financial Planning and Analysis
 - ⇒ Law
 - ⇒ Tax

Directly assigned Labor Charges will be based on the standard departmental rates of assigned employees including employee benefits and the actual number of hours devoted to providing services. Labor loadings include such items as paid time-off, payroll taxes, and pensions and benefits. A 5% premium shall be added to the direct Labor Charges of utility Affiliate employees providing services to a non-utility Affiliate. This premium is to serve as an additional safeguard against cross-subsidization.

- Purchases of goods and services including:
 - ⇒ Materials, including applicable purchase and warehousing expense
 - ⇒ Office supplies
 - ⇒ Auditors' fees
 - ⇒ Legal fees for outside counsel
- Required Payments such as:
 - ⇒ Income Taxes (see Section VI)
 - ⇒ Property Taxes
- Office, Vehicle and Equipment Costs, which will be based on standard cost or specific usage of:
 - ⇒ Transportation vehicles
 - ⇒ Construction equipment
 - ⇒ Office equipment

ATTACHMENT B

- ⇒ Computer equipment
- ⇒ Facilities

(2) **Step #2:** Costs for corporate functions performed by the Parent Company or an Affiliate not directly assigned will be allocated on the basis of causal or beneficiary relationships. These costs relate to shared functions for which it would be impractical or unreliable to record actual costs incurred.

The following departments and functions may provide indirect benefits or services to Affiliates and costs would be allocated using this step:

- Shareholder Services
- Corporate Accounting
- Budget
- Corporate Communications
- Investor Relations
- Risk Management (insurance costs other than certain premiums)
- Computer Information Services
- Telecommunications

Costs which are functionally related will be accumulated into cost pools and allocated on the basis of causal or beneficiary relationships. Examples of indirect costs and factors that may be used to allocate those costs include:

- Equity investments and advances to the Parent Company or Affiliates to allocate the cost of providing services, such as:
 - ⇒ Investor relations
 - ⇒ Long-term financing
- Number of employees to allocate the cost of providing services such as:
 - ⇒ Payroll services
 - ⇒ Compensation and Benefits
 - ⇒ Pension investment management
- Square feet to allocate the cost of providing services such as:
 - ⇒ Office space
 - ⇒ Yard space
 - ⇒ Warehousing

ATTACHMENT B

Any of these charges that can be directly assigned shall be directly assigned. Also, to the extent that casual or beneficiary relationships cannot be identified, the indirect costs shall be allocated using step #3 below.

(3) Step #3: Those indirect costs that cannot be allocated using steps #1 and #2 above will be apportioned based on a formula which reflects the proportionate level of activity of each Affiliate as compared to the Affiliated group in total.

The allocation formula will be based upon the Parent Company's or each Affiliate's proportionate share of the following factors:

- Total assets
- Operating revenues
- Operating and maintenance expense (excluding direct Cost of Sales, purchased gas, cost of electric generation for utility operations and income taxes)
- Number of employees (including equivalent personnel of Affiliates providing direct services)

There will be an equal weighting of each factor, thereby recognizing each Affiliate's portion of the Affiliated group's activity as measured by total financial resources, revenues, cost of operations and the employee work force.

(e) STANDARD PRACTICES

Policies and procedures will be developed by each Affiliate to ensure that Affiliate transactions are transfer priced in accordance with this policy, to the extent practical. In certain circumstances, specific contracts or agreements will document specific transactions between Affiliates. Contracts and Standard Practices are not required for non-recurring or infrequent transactions.

Each Standard Practice, contract, and agreement shall adhere to the policies contained herein and include the following information.

- (i) Purpose:** The stated purpose and scope.
- (ii) Policy:** A summary of the guiding principles regarding the accounting, budgeting and billing treatment of the particular assets, goods or services.
- (iii) Responsibilities/Procedures:** A description of and detail procedures for accounting, budgeting and billing of the particular assets, goods or services. This may include, but is not limited to:

ATTACHMENT B

- Type of product(s) or service(s)
- Terms and conditions
- Accounting information (account numbers, cost center, work orders, etc.)
- Required level of approval
- Timing for processing the accounting, budgeting or billing of transactions

(iv) Appendices and Exhibits:

- Copy of applicable service agreements
- List of billing rates
- List of cost centers and work order numbers

4. EMPLOYEE TRANSFERS

(a) GENERAL

Transfers or rotations of employees from a utility Affiliate to another Affiliate shall not adversely affect the utility Affiliate's ability to render safe and reliable service that meets the customers' needs. Utility Affiliate employees may provide corporate or other support services on behalf of the Parent Company or other Affiliates. Such services will be billed to Affiliates based on such employees' labor costs plus allocated indirect and overhead costs and an additional 5% premium applied to Labor Charges (if for a non-utility Affiliate), as described in Section III.

(b) EMPLOYEE TRANSFER GUIDELINES

The following guidelines will be utilized for employee transfers:

- (i) The transfer from a utility Affiliate to a non-utility Affiliate will not be to the detriment of the utility Affiliate's ability to render safe and reliable service that meets customers' needs.
- (ii) In instances where it may be desirable to transfer an employee of a utility Affiliate to the Parent Company or an Affiliate, officer approval of both companies involved in the transfer will be required before the transfer can occur.

ATTACHMENT B

(c) REPORTING OF EMPLOYEE TRANSFERS

SDG&E and SoCalGas will provide to the California Public Utilities Commission (CPUC) an annual report identifying all employees transferred to the Parent Company or any non-utility Affiliate.

It shall be the policy of other utility Affiliates to report such information on employee transfers as required by their respective jurisdictional body (such as FERC or another state utility commission).

5. INTERCOMPANY BILLINGS AND PAYMENTS

(a) GENERAL

Billings for intercompany transactions shall be issued on a timely basis, generally monthly for goods or services and at the time of transfer for assets. Sufficient detail will be provided to ensure an adequate audit trail and enable prompt reimbursement from the recipient of the assets, goods or services.

(b) INTERCOMPANY BILLINGS

Intercompany billings issued for transfers of assets, goods or services will be accompanied by or reference appropriate supporting documents. Transfer-pricing computations will be based upon methods set forth in these policies and guidelines and the applicable Standard Practices. Such computations must be documented in order to facilitate verification of methods used to compute the cost or Fair Market Value of transferred assets, goods or services. Costs incurred on behalf of the Parent Company or Affiliates shall be accumulated, priced and billed in accordance with policies set forth in Sections II and III by the end of the following month to enable timely payment.

(c) INTERCOMPANY PAYMENTS

Payments for assets, goods or services received from an Affiliate shall be made within thirty (30) days after receipt of an invoice which complies with these guidelines. If reimbursements are not received by the payment due date, late charges may be assessed by the billing company. Intercompany billings and payments shall be adequately documented so that an audit trail exists to facilitate verification of the accuracy and completeness of all billings and reimbursements. See Section VI for billing and payment procedures applicable to federal and state income taxes.

(d) RECORDING

ATTACHMENT B

Upon receipt of an adequately invoiced intercompany billing, it shall immediately be recorded. Disputes shall not preclude recording of the billing. If disputes cannot be resolved by the Affiliates, then the matter shall be brought to the attention of the applicable officers of the utility Affiliate involved, if none are involved, then to the officers of the Parent Company for resolution.

6. INCOME TAX ALLOCATION/OTHER TAXES

(a) INCOME TAXES

The Parent Company is responsible for filing the Company's consolidated U.S. federal income tax return and all combined state income tax returns. These returns include the taxable income/loss of SDG&E, SoCalGas, and their Affiliates to the extent permitted by law and/or regulation. The tax liability or benefit resulting from inclusion of the Affiliates' taxable income/loss and tax credits in the consolidated income tax return is allocated to the Affiliates. Parent may elect not to pay non-utility Affiliates for tax losses, which said non-utility Affiliates could not utilize on a stand-alone basis.

(b) INCOME TAX ALLOCATION METHODOLOGY

The separate return method or other acceptable method will be used to allocate income tax expense to the Affiliates. The separate return method allocates tax liabilities and benefits to the Affiliates that generated them. This method is in agreement with the CPUC's established policy for income tax allocation, as discussed in Decision 84-05-036, resulting from Order Instituting Investigation No. 24.

(c) BILLING AND PAYMENT PROCEDURES

Billing for federal and state income taxes will include all supporting calculations to facilitate timely payments. The timing of payments made by the Affiliates for their tax liabilities (or payments received by Affiliates for their tax benefits) will coincide with the filing dates of the Parent Company unless amounts are not significant, in which case an annual billing will be made. The Parent Company reserves the right to adjust amounts due from or to Affiliates from prior years, based upon audits and or amendments to previously filed returns.

ATTACHMENT B

(d) PROPERTY AND OTHER TAXES

Property taxes are separately assessed on and paid by each Affiliate to the extent such tax applies. Sales and use, excise taxes and other miscellaneous taxes are separately imposed on and paid by each Affiliate to the extent such taxes apply.

7. FINANCIAL REPORTING

(a) GENERAL

All Affiliates are expected to provide monthly financial statements and/or other financial information necessary to compile the Parent Company's consolidated financial statements and to comply with other internal or external reporting requirements. All Affiliates are expected to provide sufficient information necessary to prepare the consolidated income tax returns.

(b) FINANCIAL REPORTING REQUIREMENTS

The financial information to be reported by the Affiliates includes, but is not necessarily limited to, the following:

- Balance sheet
- Income statement
- Cash flow statement
- Information necessary to develop appropriate disclosures

(c) REPORTING OF INTERCOMPANY TRANSACTIONS

The following transactions between utility Affiliates and non-utility Affiliates must be reported in sufficient detail to include the nature and terms thereof:

- Transfers of assets, goods or services
- Borrowings and loans
- Receivables and payables
- Revenues and expenses
- Interest
- Identification of utility employees who provide services to Affiliates
- Permanent transfers and rotational assignments of employees among utility Affiliates and non-utility Affiliates

ATTACHMENT B

(d) SPECIFICATIONS

The financial reporting and intercompany transaction information forwarded by the Affiliates must meet the following specifications:

- (i) Consistent Format:** The format of the financial information submitted by each Affiliate will be determined by the Parent Company's reporting requirements.
- (ii) Time Constraints:** Affiliate companies financial information must be submitted within the time constraints set by the Parent Company. Conformance with the established time frame is required in order to meet the deadlines for preparing consolidated financial statements and the other reporting requirements.
- (iii) Conformance with GAAP:** The management of each Affiliate (with the necessary assistance from the Parent Company) is responsible for accumulating and preparing financial information in accordance with generally accepted accounting principles (GAAP) applied on a consistent basis. Year-end financial statements are to be accompanied by notes summarizing significant accounting policies and other disclosures required by GAAP to make the financial statements complete. Quarterly financial statements are to be accompanied by notes appropriate for interim statements.
- (iv) Regulatory Agencies:** Accounting practices mandated by regulatory agencies are to be observed when an Affiliate is within the agency's jurisdiction. In addition, Affiliates are to comply with the reporting requirements placed on the Parent Company by regulatory agencies, including the Internal Revenue Services (IRS). Information regarding intercompany transactions must be presented in a form and manner which will assist in the regulatory review of those transactions.

8. INTERNAL CONTROLS AND AUDITING

(a) GENERAL

Internal accounting controls will be reviewed, tested and monitored by SDG&E, SoCalGas, the Parent Company and other Affiliates to provide reasonable assurance that:

- (i)** Intercompany transactions are executed in accordance with management's authorization and properly recorded.
- (ii)** Assets are safeguarded.

ATTACHMENT B

(iii) Accounting records may be relied upon for the preparation of financial statements and other financial information.

(b) INTERNAL CONTROL REQUIREMENTS

(i) **Document Procedures:** All accounting policies, guidelines and procedures for transactions between SDG&E, SoCalGas, the Parent Company and Affiliates will be fully documented. The Affiliates will develop the necessary procedures and controls to ensure adherence to these policies and guidelines. Measures must be taken to ensure procedures are made available to and are observed by all employees. These procedures will be refined as necessary to ensure the accurate and complete recording of all transactions.

(ii) **Record Maintenance:** Each Affiliate will maintain records to substantiate its books and financial statements. All intercompany transactions will be documented by records of sufficient detail to facilitate verification of relevant facts. Transfer prices are to adhere to policies and guidelines and be approved as appropriate. In most cases, guidelines and procedures will be developed to document the recordkeeping requirements for the provision of specific assets, goods and services. The financial records shall be monitored to assure compliance with these transfer-pricing policies.

In addition to accounting records, each Affiliate will maintain other pertinent records such as minute books, stock books, and selected correspondence. The Affiliate's records will be retained for the period of time required by corporate and regulatory (IRS, CPUC, FERC, etc.) record-retention policies.

(iii) **Budgeting:** Affiliates will be responsible for allocating resources and controlling costs. Budgets will be prepared, as required, for capital expenditures, operating expenditures and personnel staffing. These budgets will be supported by subordinate budgets in sufficient detail to be used as a guide during the budget period.

Managers will monitor budget performance and take action, if necessary, to control costs. Budgets will be used as a tool to detect and provide early warning of variances from planned expenditures. Explanations for substantial variances will be provided as soon as they are detected.

(iv) **Audits:** The Board of Directors of the Parent Company (the Board) will retain independent auditors to conduct an annual financial audit of the Company. The nature and scope of this audit will be determined by the auditors in conjunction with the Board. The Parent Company will also engage auditors to perform all audits necessary to satisfy regulatory requirements. In addition, the Parent Company may initiate any audit or investigation of Affiliate's activities it deems necessary. The audit or investigation may be performed by independent auditors or by internal auditors of the utility Affiliates. The

ATTACHMENT B

Board and the designated corporate officer shall be responsible for supervising SDG&E's and SoCalGas' internal auditors.

The cost of auditing services performed for Affiliate companies will be borne by the Affiliate audited, even when the Parent Company initiates the audit.

Intercompany transactions and related transfer prices will be periodically audited to ensure that policies are observed and that potential or actual deviations are detected and corrected in a timely and cost efficient manner. The CPUC has statutory authority to inspect the books and records of the Parent Company and its non-utility Affiliates in regard to transactions with SDG&E or SoCalGas pursuant to California Public Utilities Code Section 314.

C. THE LIMITED PORTIONS OF THE D.97-12-088 AFFILIATE RULES THAT WILL APPLY TO INTERUTILITY TRANSACTIONS WITHIN THE NEW MERGED ORGANIZATION, AND THE LIMITED EXEMPTION FOR POST-MERGER TRANSFERS OF UTILITY EMPLOYEES TO UNREGULATED AFFILIATES

1. Rule III.c shall apply to interutility transactions
2. Rules V.G.a, b, and c shall apply to any transfer of employees between SoCalGas Operations or SoCalGas Gas Acquisition, and any group at SDG&E engaged in the gas or electric merchant function
3. Rules V.G.2.a, V.G.2.b, and V.G.2.c shall not be applied to transfers of employees between SoCalGas and SDG&E subsequent to the merger other than transfers subject to the preceding paragraph; and
4. For a six-month transition period after all merger regulatory approvals have been obtained, employee transfers between the utilities and unregulated affiliates that are necessary to implement the merger shall be exempted from Rules V.G.2.b and V.G.2.c.

ATTACHMENT B

V. SINGLE SOCALGAS TRANSPORTATION RATE FOR ALL ELECTRIC GENERATORS, INCLUDING COGENERATORS, IN SOCALGAS' SERVICE TERRITORY

SoCalGas shall implement, with Commission approval, a single transportation rate schedule for all electric generators, including cogenerators, in SoCalGas' service territory, as proposed by the California Cogeneration Council, Watson Cogeneration Company, and SoCalGas.

VI. FERC CODES OF CONDUCT

A. AIG TRADING CORPORATION CODE OF CONDUCT

The following conditions are adopted by AIG Trading Corporation ("AIG"), to be effective unless and until (a) the Commission denies authorization for the stock of AIG to be acquired by Wine Acquisition Inc. ("Wine"), (b) the agreement by Wine to acquire such stock is otherwise terminated, or (c) superseding conditions are filed and effective:

1. POWER PURCHASES

AIG will make no purchases of power from San Diego Gas & Electric Company ("SDG&E") without acceptance of a rate schedule for such sale under section 205 of the Federal Power Act.

2. NON-POWER GOODS AND SERVICES

AIG will provide no non-power goods or services (e.g., scheduling, accounting, legal, or similar services; computer hardware or software) to SDG&E at a price that is above a market price.

3. SHARING OF MARKET INFORMATION

AIG will simultaneously publicly disclose any nonpublic market information concerning possible wholesale electric power transactions that AIG provides to SDG&E or Southern California Gas Company ("SoCalGas").

4. DISCOUNTED GAS TRANSPORTATION AND STORAGE SERVICES

Within 24 hours of the time at which gas first flows under a natural gas transportation or storage transaction in which AIG receives a discounted rate, where AIG is the purchaser and SDG&E or SoCalGas is the seller, AIG will cause to be posted

ATTACHMENT B

electronically a notice providing the name of the seller, the contract rate, the maximum tariff rate, the beginning and end dates of the contract term, the maximum quantities to be transported, injected, inventoried, or withdrawn, as the case may be, the delivery points under the transaction, any conditions or requirements applicable to the discount and the procedures by which a non-affiliated shipper can request a comparable offer. The information posted will remain available for 30 days from the date of initial posting.

B. ENOVA ENERGY, INC. CODE OF CONDUCT

1. DEFINITIONS

(a) **Affiliate:** Any company with ten percent or more of its outstanding securities owned, controlled, or held with power to vote, directly or indirectly, by NewCo, Enova Corporation, or any of their subsidiaries, as well as any company in which NewCo, Enova Corporation, or any of their subsidiaries exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership.

(b) **Non-Power Goods and Services:** All goods other than electric power and all services other than those services directly associated with the sale, transmission, and distribution of electric power.

2. PROHIBITION ON INFORMATION SHARING

(a) All personnel of Enova Energy, Inc. (“EEI”) shall abide by the Standards of Conduct for Public Utilities established by the Federal Energy Regulatory Commission in Order No. 889, as codified at 18 C.F.R. §§ 37.1 - 37.4.

(b) No employee of EEI shall share directly or indirectly with any employee of San Diego Gas & Electric Company (“SDG&E”) information concerning possible wholesale electric power transactions (e.g., customer information), unless such information is publicly available or simultaneously made publicly available.

3. AFFILIATE TRANSACTIONS

(a) EEI shall purchase Non-Power Goods and Services from SDG&E at the higher of fully loaded cost or fair market value.

(b) EEI shall not sell any Non-Power Goods and Services to SDG&E at a price above fair market value.

ATTACHMENT B

4. BROKERAGE

EEl shall attempt to broker SDG&E's wholesale electric power before attempting to market its own wholesale electric power, provided that SDG&E's wholesale electric power is available for brokering and is no more expensive than EEl's wholesale electric power.

5. SEPARATE BOOKS AND ACCOUNTS

EEl shall maintain separate books and accounts from NewCo, Enova Corporation, and their Affiliates.

C. SAN DIEGO GAS & ELECTRIC COMPANY CODE OF CONDUCT

1. DEFINITIONS

(a) **Affiliate:** Any company with ten percent or more of its outstanding securities owned, controlled, or held with power to vote, directly or indirectly, by NewCo, Enova Corporation, or any of their subsidiaries, as well as any company in which NewCo, Enova Corporation, or any of their subsidiaries exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership.

(b) **Electric Marketing Affiliate:** Any Affiliate engaged in the brokerage or sale of electricity.

(c) **Non-Power Goods and Services:** All goods other than electric power and all services other than those services directly associated with the sale, transmission, and distribution of electric power.

2. PROHIBITION ON INFORMATION SHARING

(a) All personnel of San Diego Gas & Electric Company ("SDG&E") shall abide by the Standards of Conduct for Public Utilities established by the Federal Energy Regulatory Commission in Order No.889, as codified at 18 C.F.R. §§ 37.1 - 37.4.

(b) No employee of SDG&E shall share directly or indirectly with any employee of an Electric Marketing Affiliate information concerning possible wholesale electric power transactions (e.g., customer information), unless such information is publicly available or simultaneously made publicly available.

3. AFFILIATE TRANSACTIONS

ATTACHMENT B

(a) SDG&E shall sell Non-Power Goods and Services to an Electric Marketing Affiliate at the higher of fully loaded cost or fair market value.

(b) SDG&E shall not purchase from an Electric Marketing Affiliate any Non-Power Goods and Services at a price above fair market value.

4. BROKERAGE

(a) SDG&E shall not pay any brokerage fee or commission to an Electric Marketing Affiliate.

(b) SDG&E shall make available to non-affiliated brokers any non-public information that it provides to an Electric Marketing Affiliate concerning possible electric wholesale transactions.

(c) SDG&E shall utilize non-affiliated brokers for wholesale electric power transactions where such opportunities present themselves.

5. SEPARATE BOOKS AND ACCOUNTS

SDG&E shall maintain separate books and accounts from NewCo, Enova Corporation, and their Affiliates.

(END OF ATTACHMENT B)

ATTACHMENT B**TABLE OF CONTENTS**

	<u>Page(s)</u>
I. DIVESTITURE OF SOCALGAS' OPTIONS TO PURCHASE KERN RIVER AND MOJAVE.....	2
II. SDG&E FOSSIL POWER PLANT DIVESTITURE.....	2
III. APPLICANTS' 25 REMEDIAL MEASURES.....	2
IV. AFFILIATE TRANSACTION CONDITIONS	6
A. MINERAL ENERGY COMPANY CONDITIONS.....	6
B. MINERAL ENERGY COMPANY POLICY AND GUIDELINES FOR AFFILIATE COMPANY TRANSACTIONS.....	12
1. INTRODUCTION AND GENERAL POLICY	12
(a) DEFINITIONS	12
(b) STATEMENT OF POLICY	13
(c) OVERALL ACCOUNTABILITY	15
(d) SCOPE.....	15
(e) PURPOSE.....	15
(f) IMPLEMENTATION	15
(g) COMMUNICATIONS	16
2. ORGANIZATIONAL GUIDELINES.....	16
(a) PARENT COMPANY	16
(b) UTILITY AFFILIATES	18
(c) NON-UTILITY AFFILIATES.....	18
3. TRANSFER OF ASSETS, GOODS AND SERVICES	19
(a) GENERAL.....	19
(b) TRANSFERS OF ASSETS OR RIGHTS TO USE ASSETS.....	20

ATTACHMENT B

	(i)	Identification	20
	(ii)	Valuation.....	21
	(iii)	Recording.....	21
(c)		TRANSFERS OF GOODS AND SERVICES PRODUCED, PURCHASED OR DEVELOPED FOR SALE.....	22
	(i)	Identification	22
	(ii)	Valuation.....	22
	(iii)	Recording.....	22
(d)		TRANSFERS OF GOODS OR SERVICES NOT PRODUCED, PURCHASED OR DEVELOPED FOR SALE.....	23
	(i)	Identification	23
	(ii)	Valuation.....	23
	(iii)	Recording.....	23
(e)		STANDARD PRACTICES	26
4.		EMPLOYEE TRANSFERS	27
	(a)	GENERAL.....	27
	(b)	EMPLOYEE TRANSFER GUIDELINES	27
	(c)	REPORTING OF EMPLOYEE TRANSFERS	28
5.		INTERCOMPANY BILLINGS AND PAYMENTS.....	28
	(a)	GENERAL.....	28
	(b)	INTERCOMPANY BILLINGS	28
	(c)	INTERCOMPANY PAYMENTS	28
	(d)	RECORDING	29
6.		INCOME TAX ALLOCATION/OTHER TAXES	29

ATTACHMENT B

(a)	INCOME TAXES	29
(b)	INCOME TAX ALLOCATION METHODOLOGY	29
(c)	BILLING AND PAYMENT PROCEDURES.....	29
(d)	PROPERTY AND OTHER TAXES	30
7.	FINANCIAL REPORTING	30
(a)	GENERAL.....	30
(b)	FINANCIAL REPORTING REQUIREMENTS	30
(c)	REPORTING OF INTERCOMPANY TRANSACTIONS.....	30
(d)	SPECIFICATIONS	31
(i)	Consistent Format.....	31
(ii)	Time Constraints	31
(iii)	Conformance with GAAP.....	31
(iv)	Regulatory Agencies.....	31
8.	INTERNAL CONTROLS AND AUDITING	31
(a)	GENERAL.....	31
(b)	INTERNAL CONTROL REQUIREMENTS	32
(i)	Document Procedures.....	32
(ii)	Record Maintenance.....	32
(iii)	Budgeting	32
(iv)	Audits.....	32
C.	THE LIMITED PORTIONS OF THE D.97-12-088 AFFILIATE RULES THAT WILL APPLY TO INTERUTILITY TRANSACTIONS WITHIN THE NEW MERGED ORGANIZATION, AND THE LIMITED EXEMPTION FOR POST-MERGER TRANSFERS OF UTILITY EMPLOYEES TO UNREGULATED AFFILIATES	33

ATTACHMENT B

V.	SINGLE SOCALGAS TRANSPORTATION RATE FOR ALL ELECTRIC GENERATORS, INCLUDING COGENERATORS, IN SOCALGAS' SERVICE TERRITORY	34
VI.	FERC CODES OF CONDUCT	34
A.	AIG TRADING CORPORATION CODE OF CONDUCT.....	34
1.	POWER PURCHASES.....	34
2.	NON-POWER GOODS AND SERVICES.....	34
3.	SHARING OF MARKET INFORMATION	34
4.	DISCOUNTED GAS TRANSPORTATION AND STORAGE SERVICES	34
B.	ENOVA ENERGY, INC. CODE OF CONDUCT	35
1.	DEFINITIONS.....	35
(a)	Affiliate.....	35
(b)	Non-Power Goods and Services	35
2.	PROHIBITION ON INFORMATION SHARING.....	35
3.	AFFILIATE TRANSACTIONS	35
4.	BROKERAGE.....	36
5.	SEPARATE BOOKS AND ACCOUNTS	36
C.	SAN DIEGO GAS & ELECTRIC COMPANY CODE OF CONDUCT	36
1.	DEFINITIONS.....	36
(a)	Affiliate.....	36
(b)	Electric Marketing Affiliate.....	36
(c)	Non-Power Goods and Services	36
2.	PROHIBITION ON INFORMATION SHARING.....	36
3.	AFFILIATE TRANSACTIONS	37
4.	BROKERAGE.....	37
5.	SEPARATE BOOKS AND ACCOUNTS	37

A.96-10-038 wav

ATTACHMENT B